

Legislative Audit Division

State of Montana



Report to the Legislature

November 1996

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Department of Military Affairs

This report contains three recommendations covering

- ▶ Establishing disaster or emergency procedures to ensure consistent recording of financial activity and compliance with state laws and policies.
- ▶ Requesting federal funds in advance and earning approximately \$23,000 in additional interest.
- ▶ Accuracy of accounting records.

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
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LEGISLATIVE AUDIT DIVISION

November 1996

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Military Affairs for the two fiscal years ended June 30, 1996. Included in this report are recommendations concerning: establishing disaster and emergency procedures, requesting federal funds in advance, and accuracy of accounting records.

The department's written response to the audit recommendations is included at the end of the audit report. We thank the Adjutant General and his staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.
Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Department of Military Affairs

Members of the audit staff involved in this audit were Jody Brandt, Laurie Evans, Wayne Guazzo, Susan S. McEachern, Paul J. O'Loughlin, and Cathy Pennie.

Table of Contents

	Appointed and Administrative Officials	ii
	Report Summary	iii
Introduction	Introduction	1
	Background	1
Prior Audit Recommendations	Prior Audit Recommendations	3
Findings and Recommendations	Disaster & Emergency Procedures	5
	Timely Reimbursements	7
	Accuracy of Accounting Records	8
	Abatement of Expenditures	9
	Classifying Expenditures and Revenues	10
	Cash Collection Procedures	11
Independent Auditor's Report & Agency Financial Schedules	Independent Auditor's Report	A-3
	Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1996	A-5
	Schedule of Total Revenues & Other Additions for the Two Fiscal Years Ended June 30, 1996	A-7
	Schedule of Total Expenditures & Other Reductions By Object By Program for the Fiscal Year Ended June 30, 1996	A-9
	Schedule of Total Expenditures, Transfers Out & Other Reductions By Object By Program for the Fiscal Year Ended June 30, 1995	A-11
	Notes to the Financial Schedules	A-13
Agency Response	Department of Military Affairs	B-3

Appointed and Administrative Officials

Department of Military Affairs	John E. Prendergast	Adjutant General
	Doug Booker	Administrator Centralized Services Division
	Jim Greene	Administrator Disaster and Emergency Services Division
	James F. Jacobsen	Administrator Veterans Affairs Division

Board of Veterans Affairs	<u>Term Expires</u>
George Hageman, Chairman	May 1997
Johnny Buck, Vice Chairman	May 1999
Thaddeous Mayer, Secretary	May 2001
Ruben McKinney, Member	May 2000
Barbara Ellestad, Member	May 1998

Department of Military Affairs

This audit report is the result of our financial-compliance audit of the Department of Military Affairs for the two fiscal years ended June 30, 1996. The report contains three recommendations directed to the department.

The first recommendation discusses the need for the department to establish accounting and administrative procedures for consistent recording of financial activity and compliance with state laws and policies during declared disasters or emergencies. In fiscal years 1994-95 and 1995-96, the department was involved in three declared disasters. We noted several instances where the department did not properly record financial activity or comply with state laws and policies.

The second recommendation relates to procedures used by the department to draw funds for the Air and Army National Guard Programs. Currently, on a monthly basis, the department requests reimbursement from the United States Department of Defense for expenditures related to this program. To accommodate after-the-fact funding, the department obtained a \$1.8 million loan from the General Fund in fiscal year 1995-96. This resulted in lost interest to the General Fund.

The final recommendation relates to proper recording of financial activity on the Statewide Budgeting and Accounting System (SBAS). We noted instances where the department did not record expenditures and revenue in accordance with state laws and policies. In addition, we noted the department should deposit Veterans Affairs collections and restrictively endorse checks on a timely basis as required by state law and policies.

Department officials concur with all recommendations.

We issued an unqualified opinion on the financial schedules presented in this report. This means the reader may rely on the presented financial information and the supporting detailed information on SBAS.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department:

- A. Establish internal administrative policies and procedures for disasters or emergencies to ensure compliance with state laws and policies.. 7

Agency Response: Concur. See page B-4.

- B. Work with the Department of Administration, Accounting and Management Support Division to establish accounting policy and procedures for use by other state agencies which provide support to disasters or emergencies. 7

Agency Response: Concur. See page B-4.

Recommendation #2

We recommend the department work with the United States Department of Defense and establish procedures to obtain cash advances for federal expenditures. 8

Agency Response: Concur. See page B-4.

Recommendation #3

We recommend the department:

- A. Ensure expenditures and revenues are properly recorded in accordance with state law and policies. 11

Agency Response: Concur. See page B-5.

- B. Deposit Veterans Affairs Division collections and restrictively endorse checks timely as required by state law and policy. 11

Agency Response: Concur. See page B-5.

Introduction

Introduction

We performed the financial-compliance audit of the Department of Military Affairs for the two fiscal years ended June 30, 1996. The objectives of the audit were to:

1. Determine if the department complied with applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
3. Determine if the department's financial schedules fairly present the results of operations for the two fiscal years ended June 30, 1996.
4. Determine the implementation status of prior audit recommendations.

This report contains three recommendations to the department. These recommendations address areas where the department can improve internal controls, accounting procedures, and compliance with laws and regulations. Areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

The department was created under the Executive Reorganization Act of 1971. The department consists of the Montana National Guard, Centralized Services, Disaster and Emergency Services, and Veterans Affairs Divisions.

The Montana National Guard is authorized approximately 49 full time equivalent (FTE) positions. The Montana National Guard has two programs, the Air National Guard and the Army National Guard. The Air National Guard provides firefighting personnel and maintenance and support for Air National Guard facilities at Great

Introduction

Falls, Montana. The Army National Guard provides administration, maintenance, and support for facilities and training areas throughout the state. The mission of both programs is to provide the necessary facilities to support the Montana National Guard in the event of a state or national emergency.

Centralized Services Division (CSD) is authorized approximately six FTE. CSD is the primary administrative support organization for the department, including financial management, budgeting, personnel, and other administrative activities.

The Disaster and Emergency Services Division (DES) works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, response, and recovery plans; provides technical support for civil defense shelters and exercises, and for radiological defense and monitoring; and receives, records, and disburses federal funds to eligible political subdivisions. This division is authorized 20 FTE.

The Veterans Affairs Division (VA) is authorized approximately 19 FTE and is responsible for assisting Montana's veterans and dependents in obtaining veterans' benefits. The division provides information on benefits, guidance on completing veterans' administration forms, and referral to other agencies. The division is attached to the department for administrative purposes. The division administrator is hired by and reports to the Board of Veterans Affairs. The board is appointed by the governor with the consent of the senate.

In addition to Montana Department of Military Affairs activity, other Montana National Guard activities are directly funded by the federal government. According to department officials, federal funding for the Air and Army National Guard programs during federal fiscal year 1994-95 was approximately \$39.2 million and \$50.5 million, respectively. These funds were used for National Guard personnel salaries and training and to purchase equipment.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 1994. The report contained six recommendations still applicable to the department. We determined the department implemented three, partially implemented one, and did not implement two of the recommendations.

The recommendation which was partially implemented relates to compliance with state laws regarding travel reimbursements and is discussed on page 5. The recommendations which were not implemented relate to accuracy of accounting records and cash collection procedures as discussed on pages 8 and 11, respectively.

Findings and Recommendations

Disaster & Emergency Procedures

During fiscal years 1994-95 and 1995-96, the department provided various services for a number of disasters and emergencies occurring in the state of Montana. These included forest fires in 1994, 1996 floods, and the 1996 train derailment which resulted in a chemical spill. The Governor declared a disaster emergency for each of the above incidents which allowed the department to spend the Governor's Disaster Funds from the General Fund. In addition, the department received moneys from the Federal Emergency Management Agency (FEMA) for presidential declarations of the 1994 fires and the 1996 floods. The department's Disaster & Emergency Services Division coordinated the state's involvement in these declared disasters. As the incidents progressed the national guard and other state agency personnel were involved in assisting the department.

The state of Montana has not established specific procedures for agencies to follow to ensure consistent recording of financial activity and compliance with state laws and policies related to disasters or emergencies. Without established procedures for use by all state agencies involved in responding to a disaster or emergency situation, the state of Montana's accounting records may not properly reflect the related costs. The costs may be recorded more than once; not recorded at all; or not recorded in a consistent manner by the various state agencies involved. In addition, noncompliance with state laws and policies may occur due to the emergency nature of the situation. We noted the following instances where accounting and administrative procedures would have helped the department to consistently record financial activity and minimize noncompliance with state laws and policies.

- After the 1996 floods and clean-up of a chemical spill, the department reimbursed other state agencies for their related overtime pay out of the Governor's Disaster Fund. When the department was reimbursed by a county, the department abated the expenditures out of the Governor's Disaster Fund rather than recording the reimbursement as revenue. State policy requires that the reimbursement be recorded as revenue rather than an expenditure abatement. This error resulted in unrecorded expenditures and revenue on the state's accounting

Findings and Recommendations

records. After discussions with our office and the Department of Administration, Accounting and Management Support Division, the department adjusted the accounting records to report the majority of the revenue and expenditures in fiscal year 1995-96. The remaining amounts not recorded on the state's accounting records by the department are discussed in the accounting issues report section on page 9.

- When the Montana National Guard was called to active duty during the 1994 forest fires, the department reimbursed guardsmen for actual motel costs, even though the costs exceeded the amounts allowed by state law. We noted reimbursements made at \$50 per day rather than the \$30 allowed by section 2-18-501, MCA. According to department officials, the guardsmen were called out on short notice and there was not adequate time to ensure lodging rates were within the state per diem allowance.
- The department did not retain time sheets prepared by guardsmen for three years as required by state policy and federal regulations. The time sheets are used as documentation to support amounts paid to the individual guardsmen. According to National Guard personnel, the support is retained for one year and disposed of, if no problems occur. The department should retain the support documentation for three years as required by state policy and federal regulation.
- At the completion of a fire, the Department of Natural Resources and Conservation (formerly Department of State Lands), normally calculates the cost of fighting fires on federal property and bills the United States Forest Service. As a result of the 1994 forest fires, the department received \$899,622 from the United States Forest Service related to the cost of fighting fires on federal property. The department classified this revenue as "federal indirect cost recoveries." During similar instances in the past, the Department of Natural Resources and Conservation received these types of funds and recorded the revenue as "charges for services."

Because the occurrence of emergencies and disasters normally requires an immediate response, that is usually not the best time for agencies to ponder accounting and routine administrative questions. If the department worked with the Department of Administration, Accounting and Management Support Division to establish written procedures to be used when state agencies record accounting

Findings and Recommendations

transactions resulting from emergencies and disasters, it could simplify administrative details and allow more efficient use of agency resources.

Recommendation #1

We recommend the department:

- A. Establish internal administrative policies and procedures for disasters or emergencies to ensure compliance with state laws and policies.**
- B. Work with the Department of Administration, Accounting and Management Support Division to establish accounting policy and procedures for use by other state agencies which provide support to disasters or emergencies.**

Timely Reimbursements

The department receives federal funding for the Air National Guard and Army National Guard programs through a Master Cooperative Agreement signed by Montana's Adjutant General and United States Property and Fiscal Officer. In fiscal year 1995-96, the department received approximately \$4.6 million from the United States Department of Defense to reimburse the state for the cost of these programs. To accommodate after-the-fact federal funding, the department obtained a \$1.8 million loan from the General Fund in fiscal year 1995-96.

Each month department personnel review the accounting records for the federal share of salaries and wages, utilities, supplies and construction materials costs. Based on this review, a request for reimbursement is submitted to the federal government. We reviewed a sample of reimbursements during fiscal year 1995-96 and noted on the average, it took approximately five weeks for the department to receive reimbursement from the federal government. According to department personnel, once the request is submitted to the federal government, various checks and balances are completed by the federal government during processing of the claim. Using the 1994-

Findings and Recommendations

95 treasurer interest rate, average length of time to receive reimbursement and total federal funding from United States Department of Defense in fiscal year 1995-96, we estimated the General Fund lost a minimum of \$23,000 in interest earnings during fiscal year 1995-96 because reimbursements were not timely.

According to the Master Cooperative Agreement, payment may be made to the department through various forms, including payment in advance. The type of expenditures incurred by the department, on behalf of the federal government, could be estimated and a request for advance submitted. This would allow the department to receive federal funds in a timely manner. It would also eliminate the need for a large inter-entity loan and reduce any lost interest to the General Fund.

Department personnel state they have recently discussed requesting federal moneys in advance, however, they have not yet pursued the matter.

Recommendation #2

We recommend the department work with the United States Department of Defense and establish procedures to obtain cash advances for federal expenditures.

Accuracy of Accounting Records

The financial information of the department is used by department officials, budget analysts, and the legislature to manage and establish funding levels for the department. State law requires transactions entered on the state's accounting system be recorded in accordance with Generally Accepted Accounting Principles (GAAP). The Department of Administration, Accounting and Management Support Division, has adopted state accounting policies which comply with GAAP. Accounting for financial activity in accordance with these requirements improves the quality, consistency and comparability of the resulting financial information among state agencies. It also ensures that revenue and expenditures are properly and consistently measured within each fiscal year. We noted the following instances

Findings and Recommendations

where the department did not record expenditures and revenue in accordance with state law and policies.

Abatement of Expenditures

We noted instances where expenditures were improperly abated. State policy allows abatements for specific items which are nonrecurring and nonroutine in nature and are the responsibility of an outside party. The policy indicates for an expenditure abatement to be allowable the original expenditure transaction should not be part of the normal or routine mission of the department.

- The Disaster and Emergency Services Division (DES) maintains a supply of sandbags for use by the state and local governments during floods. The department records an expenditure on the state's accounting records for sandbag purchases and it abates the expenditure, instead of recording a revenue, when a payment is received from a county or local government. In addition, the department does not record an accounts receivable on the accounting records for sandbags sold on credit. As a result, the following accounts are understated in fiscal year 1995-96, on the department's financial records: expenditures by \$2,962; revenue by \$37,485; and accounts receivable by \$34,523. Department personnel believed the distribution of sandbags was not a frequent event and therefore, qualifies as a proper abatement. However, providing disaster and emergency assistance to counties and local governments is part of the mission of the department.
- The department incorrectly recorded \$28,618 of revenue received from the federal government for communication charges. When the department received the federal moneys, personnel abated expenditures rather than recording the revenue. Department personnel stated this transaction was the result of human error.
- In fiscal year 1995-96, we noted four instances where the department paid for the initial cost of an airline ticket for DES employees to attend FEMA training courses. The employees later reimbursed the department a total of \$3,541 from moneys they received from FEMA. When the reimbursement is received from the DES employee, the department abates the expenditure rather than recording the revenue. We noted six additional instances where the DES employee paid for the airline ticket directly. We are unable to determine the amount of unrecorded revenue and expenditures for those six

Findings and Recommendations

transactions since they did not flow through the state's accounting records. Since DES employees attend the training courses as part of their job, state policy requires these expenditures and the related revenue be recorded on the state's accounting records to reflect the cost of operations. As a result, in fiscal year 1995-96, expenditures and revenue are understated on the state's accounting records by at least \$3,541.

- The department received reimbursement of \$12,347 from a third party for state employee overtime pay related to the 1996 floods. The department abated the expenditures rather than recording the related revenue and expenditures. As a result, revenue and expenditures on the state's accounting records are understated in fiscal year 1995-96 by \$12,347.

Classifying Expenditures and Revenues

Department of Administration, Accounting and Management Support Division, established expenditure and revenue classifications for agencies to use so information recorded on the state's accounting system consistently and accurately identifies the nature of amounts disbursed and received by agencies. We noted the following instances where the department did not use classifications in accordance with state policy.

- In fiscal year 1994-95, we noted the department recorded approximately \$43,000 of county employee travel costs to "operating-expenses non-employee travel" rather than "grants to counties." This occurred because department personnel complete travel vouchers for county employees who attend DES training conferences and reimburse the county employees directly. Since the county employee is a representative of the county, and this activity is considered assistance to counties, the department should classify the financial activity as "grants to counties." Department personnel stated there was confusion regarding how this activity should be recorded.
- In fiscal years 1994-95 and 1995-96, the department recorded federal funds received to pay the costs of a portion of one employee's position as "federal indirect cost recoveries." The department normally classifies federal funds received to fund a portion of its employee salaries as "federal" revenue. In fiscal year 1994-95 and 1995-96, the department misclassified federal revenue amounting to \$13,674 and \$13,667 respectively. The department should ensure federal revenue is classified properly on the state's accounting records.

Findings and Recommendations

Cash Collection Procedures

The department's Veterans Affairs Division (VA) receives donations, consisting of cash and checks, to support its cemetery operations. During fiscal years 1994-95 and 1995-96, the department collected approximately \$8,090 and \$7,485, respectively, in cemetery donations. Section 17-6-105(6), MCA, requires all moneys be deposited daily with the state treasurer whenever the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. All moneys collected must be deposited at least weekly. State policy also requires that all checks received by the department be restrictively endorsed immediately upon receipt.

We tested eight deposits made during two months, and noted two instances where the department did not deposit the donations within the time frame required by state law. We also noted checks are not restrictively endorsed immediately upon receipt as required by state policy. These were concerns reported in a prior audit of the department. Department personnel stated one of the deposits was not made because employees were on vacation and no employees were available to approve the document for processing. Department personnel stated they are moving an employee from another division into CSD, which should minimize the concern in the future.

Recommendation #3

We recommend the department:

- A. Ensure expenditures and revenues are properly recorded in accordance with state law and policies.**
- B. Deposit Veterans Affairs Division collections and restrictively endorse checks timely as required by state law and policy.**

Independent Auditor's Report & Agency Financial Schedules

MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey



Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Military Affairs for each of the two fiscal years ended June 30, 1995 and 1996, as shown on pages A-5 through A-15. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Military Affairs for the two fiscal years ended June 30, 1995 and 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 27, 1996

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	General Fund	Special Revenue Funds
FUND BALANCE: July 1, 1994	\$ 0	\$ 425,783
ADDITIONS		
<u>Fiscal Year 1994-95</u>		
Budgeted Revenues		6,490,150
Nonbudgeted Revenues	4,397,978 ¹	4,678
Prior Year Revenue Adjustments	1,489	
Prior Year Expenditure Adjustments	21,476	55,718
Prior Year Expenditures	151	
Direct Entries to Fund Balance		455
<u>Fiscal Year 1995-96</u>		
Budgeted Revenues	154,861	7,155,194
Nonbudgeted Revenues	9,732	
Prior Year Revenue Adjustments		48,496
Prior Year Expenditure Adjustments	55,144	
Direct Entries to Fund Balance		1,264
Support From State of Montana	3,215,369	
Total Additions	<u>7,856,200</u>	<u>13,755,955</u>
REDUCTIONS		
<u>Fiscal Year 1994-95</u>		
Budgeted Expenditures & Transfers Out	3,605,253	5,196,732
Nonbudgeted Expenditures		4,710
Support to State of Montana	815,841	
Prior Year Expenditures		1,067
Cash Transfers Out		1,661,223
Prior Year Transfer Out Adjustments		5,852
Prior Year Revenue Adjustments		15,869
<u>Fiscal Year 1995-96</u>		
Budgeted Expenditures	2,894,889	6,460,823
Prior Year Expenditures		2,718
Prior Year Expenditure Adjustments		86,537
Cash Transfers Out		639,836
Prior Year Revenue Adjustments	540,217	
Total Reductions	<u>7,856,200</u>	<u>14,075,367</u>
FUND BALANCE: June 30, 1996	\$ <u>0</u>	\$ <u>106,371</u>

¹ See note 6 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & OTHER ADDITIONS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	General Fund	Special Revenue Funds	Total
TOTAL REVENUES BY CLASS			
<u>Fiscal Year 1995-96</u>			
Licenses & Permits		\$ 98,716	\$ 98,716
Charges for Services	\$ 154,926	17,574	172,500
Federal Indirect Cost Recoveries	(530,550)	13,667	(516,883)
Rentals, Leases & Royalties		6,903	6,903
Grants, Contracts & Donations		7,485	7,485
Federal		7,059,345	7,059,345
Total Revenues	<u>(375,624)</u>	<u>7,203,690</u>	<u>6,828,066</u>
Less: Nonbudgeted Revenues	9,732		9,732
Prior-Year Revenue Adjustments	(540,217)	48,496	(491,721)
Actual Budgeted Revenues	<u>154,861</u>	<u>7,155,194</u>	<u>7,310,055</u>
Estimated Revenues	266,337	9,213,062	9,479,399
Budgeted Revenues Over (Under) Estimated	<u>\$ (111,476)</u>	<u>\$ (2,057,868)</u>	<u>\$ (2,169,344)</u>
BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS			
Licenses & Permits		\$ 8,740	\$ 8,740
Charges for Services	\$ (111,476)	2,400	(109,076)
Federal Indirect Cost Recoveries		(223)	(223)
Rentals, Leases & Royalties		1,903	1,903
Grants, Contracts & Donations		(2,272)	(2,272)
Federal		(2,068,416)	(2,068,416)
Budgeted Revenues Over (Under) Estimated	<u>\$ (111,476)</u>	<u>\$ (2,057,868)</u>	<u>\$ (2,169,344)</u>
TOTAL REVENUES BY CLASS			
<u>Fiscal Year 1994-95</u>			
Licenses & Permits		\$ 87,627	\$ 87,627
Charges for Services	\$ 74	25,553	25,627
Federal Indirect Cost Recoveries	4,397,783 ²	13,674	4,411,457
Rentals, Leases & Royalties	1,610		1,610
Grants, Contracts & Donations		8,100	8,100
Federal		6,344,005	6,344,005
Total Revenues	<u>4,399,467</u>	<u>6,478,959</u>	<u>10,878,426</u>
Less: Nonbudgeted Revenues	4,397,978	4,678	4,402,656
Prior-Year Revenue Adjustments	1,489	(15,869)	(14,380)
Actual Budgeted Revenues	<u>0</u>	<u>6,490,150</u>	<u>6,490,150</u>
Estimated Revenues	500	6,843,556	6,844,056
Budgeted Revenues Over (Under) Estimated	<u>\$ (500)</u>	<u>\$ (353,406)</u>	<u>\$ (353,906)</u>
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS			
Licenses & Permits		\$ 635	\$ 635
Federal Indirect Cost Recoveries	\$ (500)	4	(496)
Federal		(354,045)	(354,045)
Budgeted Revenues Over (Under) Estimated	<u>\$ (500)</u>	<u>\$ (353,406)</u>	<u>\$ (353,906)</u>

² See note 6 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & OTHER REDUCTIONS BY OBJECT BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Operations Support	Military Capital Construction ³	Army National Guard	Air National Guard	Disaster Coordination Response	Veterans Affairs	Disaster Fund	Total
PROGRAM EXPENDITURES BY OBJECT								
Personal Services								
Salaries	\$ 210,371		\$ 458,140	\$ 808,852	\$ 533,070	\$ 399,286	\$ 380,654	\$ 2,790,373
Hourly Wages							134	134
Employee Benefits	47,848		127,453	236,214	127,336	110,215	58,087	707,153
Total	<u>258,219</u>		<u>585,593</u>	<u>1,045,066</u>	<u>660,406</u>	<u>509,501</u>	<u>438,875</u>	<u>3,497,660</u>
Operating Expenses								
Other Services	23,472		415,075	150,148	19,114	15,798	37,298	660,905
Supplies & Materials	4,792		167,293	83,868	15,244	8,603	10,335	290,135
Communications	2,973		299,099	523	25,390	19,906	6,263	354,154
Travel	4,763		24,592	8,724	62,044	27,760	49,550	177,433
Rent			62,809	409	2,452	5,699	1,201	72,570
Utilities			749,491	323,570		490	6	1,073,557
Repair & Maintenance	6,296		781,880	33,099	5,295	1,714	36,604	864,888
Other Expenses	6,949		26,992	7,620	14,563	1,733	342	58,199
Total	<u>49,245</u>		<u>2,527,231</u>	<u>607,961</u>	<u>144,102</u>	<u>81,703</u>	<u>141,599</u>	<u>3,551,841</u>
Equipment and Intangible Assets								
Equipment	23,189		70,256	9,495	18,943	11,029	4,023	136,935
Intangible Assets	290		274		3,333	358		4,255
Total	<u>23,479</u>		<u>70,530</u>	<u>9,495</u>	<u>22,276</u>	<u>11,387</u>	<u>4,023</u>	<u>141,190</u>
Capital Outlay								
Buildings		\$ 258,745						258,745
Other Improvements		240						240
Total		<u>258,985</u>						<u>258,985</u>
Grants								
From State Sources							129,715	129,715
From Federal Sources					719,256		1,085,717	1,804,973
Total					<u>719,256</u>		<u>1,215,432</u>	<u>1,934,688</u>
Benefits and Claims								
To Individuals	2,280			(5,438)				(3,158)
Total	<u>2,280</u>			<u>(5,438)</u>				<u>(3,158)</u>
Debt Service								
Installment Purchases						5,899		5,899
Total						<u>5,899</u>		<u>5,899</u>
Total Program Expenditures	<u>\$ 333,223</u>	<u>\$ 258,985</u>	<u>\$ 3,183,354</u>	<u>\$ 1,657,084</u>	<u>\$ 1,546,040</u>	<u>\$ 608,490</u>	<u>\$ 1,799,929</u>	<u>\$ 9,387,105</u>
PROGRAM EXPENDITURES BY FUND								
General Fund	\$ 302,816		\$ 941,012	\$ 110,490	\$ 225,094	\$ 548,329	\$ 712,004	\$ 2,839,745
Special Revenue Fund	30,407	\$ 258,985	2,242,342	1,546,594	1,320,946	60,161	1,087,925	6,547,360
Total Program Expenditures	<u>333,223</u>	<u>258,985</u>	<u>3,183,354</u>	<u>1,657,084</u>	<u>1,546,040</u>	<u>608,490</u>	<u>1,799,929</u>	<u>9,387,105</u>
Less: Prior-Year Expenditure Adjustments	(252)		(5,322)	25,038	13,324	(1,395)		31,393
Actual Budgeted Expenditures	<u>333,475</u>	258,985	<u>3,188,676</u>	<u>1,632,046</u>	<u>1,532,716</u>	<u>609,885</u>	1,799,929	<u>9,355,712</u>
Budget Authority	341,799	18,311,648	3,529,985	1,656,914	1,740,251	621,324	2,176,859	28,378,780
Unspent Budget Authority	<u>\$ 8,324</u>	<u>\$ 18,052,663</u>	<u>\$ 341,309</u>	<u>\$ 24,868</u>	<u>\$ 207,535</u>	<u>\$ 11,439</u>	<u>\$ 376,930</u>	<u>\$ 19,023,068</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 8,011		\$ 7,683	\$ 1,144	\$ 4,683	\$ 7,463	\$ 181,011	\$ 209,995
Special Revenue Fund	313	\$ 18,052,663	333,626	23,724	202,852	3,976	195,919	18,813,073
Total Unspent Budget Authority	<u>\$ 8,324</u>	<u>\$ 18,052,663</u>	<u>\$ 341,309</u>	<u>\$ 24,868</u>	<u>\$ 207,535</u>	<u>\$ 11,439</u>	<u>\$ 376,930</u>	<u>\$ 19,023,068</u>

³ See note 5 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES, TRANSFERS OUT & OTHER REDUCTIONS BY OBJECT BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	<u>Operations Support</u>	<u>Army National Guard</u>	<u>Air National Guard</u>	<u>Disaster Coordination Response</u>	<u>Veterans Affairs</u>	<u>Disaster Fund</u>	<u>Total</u>
PROGRAM EXPENDITURES BY OBJECT							
Personal Services							
Salaries	\$ 171,890	\$ 424,536	\$ 769,191	\$ 526,324	\$ 373,718	\$ 1,208,981	\$ 3,474,640
Employee Benefits	40,595	120,637	271,870	132,208	105,094	182,055	852,459
Total	<u>212,485</u>	<u>545,173</u>	<u>1,041,061</u>	<u>658,532</u>	<u>478,812</u>	<u>1,391,036</u>	<u>4,327,099</u>
Operating Expenses							
Other Services	58,024	268,118	168,192	46,600	19,330	2,957	563,221
Supplies & Materials	3,243	88,001	79,394	11,044	10,894	1,343	193,919
Communications	2,680	291,965	636	21,398	14,569	870	332,118
Travel	1,454	18,370	4,390	98,012	26,274	93,269	241,769
Rent		51,334	296	5,530	6,500		63,660
Utilities		663,487	288,442	1,389	368		953,686
Repair & Maintenance	1,247	306,280	32,015	2,753	5,156	62	347,513
Other Expenses	7,675	15,251	2,815	14,246	1,562		41,549
Total	<u>74,323</u>	<u>1,702,806</u>	<u>576,180</u>	<u>200,972</u>	<u>84,653</u>	<u>98,501</u>	<u>2,737,435</u>
Equipment and Intangible Assets							
Equipment	8,920	34,761	4,131	38,297	31,160	2,321	119,590
Intangible Assets	181			118	2,556		2,855
Total	<u>9,101</u>	<u>34,761</u>	<u>4,131</u>	<u>38,415</u>	<u>33,716</u>	<u>2,321</u>	<u>122,445</u>
Grants							
From State Sources						94,834	94,834
From Federal Sources				561,231			561,231
Total				<u>561,231</u>		<u>94,834</u>	<u>656,065</u>
Benefits and Claims							
To Individuals	2,280	70,000	742,958				815,238
Total	<u>2,280</u>	<u>70,000</u>	<u>742,958</u>				<u>815,238</u>
Transfers							
Accounting Entity Transfers		69,037					69,037
Nonmandatory Transfers		1,870					1,870
Total		<u>70,907</u>					<u>70,907</u>
Debt Service							
Installment Purchases					6,164		6,164
Total					<u>6,164</u>		<u>6,164</u>
Total Program Expenditures	<u>\$ 298,189</u>	<u>\$ 2,423,647</u>	<u>\$ 2,364,330</u>	<u>\$ 1,459,150</u>	<u>\$ 603,345</u>	<u>\$ 1,586,692</u>	<u>\$ 8,735,353</u>
PROGRAM EXPENDITURES BY FUND							
General Fund	\$ 284,516	\$ 725,076	\$ 216,100	\$ 230,800	\$ 540,593	\$ 1,586,692	\$ 3,583,777
Special Revenue Fund	13,673	1,698,571	2,148,230	1,228,350	62,752		5,151,576
Total Program Expenditures	<u>298,189</u>	<u>2,423,647</u>	<u>2,364,330</u>	<u>1,459,150</u>	<u>603,345</u>	<u>1,586,692</u>	<u>8,735,353</u>
Less: Nonbudgeted Expenditures					4,710		4,710
Prior-Year Expenditure Adjustments	475	(49,983)	(2,082)	(19,747)	(5)		(71,342)
Actual Budgeted Expenditures	<u>297,714</u>	<u>2,473,630</u>	<u>2,366,412</u>	<u>1,478,897</u>	<u>598,640</u>	<u>1,586,692</u>	<u>8,801,985</u>
Budget Authority	301,405	3,001,529	2,481,767	1,522,654	603,510	1,619,675	9,530,540
Unspent Budget Authority	<u>\$ 3,691</u>	<u>\$ 527,899</u>	<u>\$ 115,355</u>	<u>\$ 43,757</u>	<u>\$ 4,870</u>	<u>\$ 32,983</u>	<u>\$ 728,555</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 3,663	\$ 29,961	\$ 5,081	\$ 802	\$ 906	\$ 32,983	\$ 73,396
Special Revenue Fund	28	497,938	110,274	42,955	3,964		655,159
Total Unspent Budget Authority	<u>\$ 3,691</u>	<u>\$ 527,899</u>	<u>\$ 115,355</u>	<u>\$ 43,757</u>	<u>\$ 4,870</u>	<u>\$ 32,983</u>	<u>\$ 728,555</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable.

Expenditures may include: entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. Effective July 1, 1996 the Legislative Audit Committee approved a new financial schedule format for inclusion in agency audit reports. The new format includes nonbudgeted expenditures and revenue activity, as well as, prior year adjustments for all financial schedules presented. In addition, financial activity for agency funds, if applicable to the agency, is included in the Schedule of Changes in Fund Balance and Property Held in Trust.

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include Air and Army National Guard, Federal Emergency Management Assistance, and Veterans Cemetery and License Plate Fees.

2.

Compensated Leave

Employees at the department accumulate both annual and sick leave. Nonexempt employees accumulate compensation leave covered by the Fair Labor Standards Act. The department pays employees for 100 percent of unused annual leave credits, 25 percent of unused sick leave credits, and 100 percent of unused Fair Labor Standards Act leave credits upon termination. Accumulated unpaid liabilities for annual, sick leave, and compensatory time are not reflected in accompanying financial schedules. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1996, the department had a liability of \$270,112 for annual leave, \$156,520 for sick leave, and \$37,180 for Fair Labor Standards Act leave.
3.

Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to PERS was \$197,077 in fiscal year 1994-95 and \$167,276 in fiscal year 1995-96.
4.

General Fund Balance

The General Fund is a statewide fund. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

Notes to the Financial Schedules

- | | | |
|----|---|---|
| 5. | Military Capital Construction | During fiscal year 1995-96, the department established a construction program for federal funded projects. This activity was previously handled by the Department of Administration, Architecture & Engineering Division. The unspent budget authority relates to federal projects still outstanding. Approximately \$13 million of the unspent budget authority is for remodeling of armory buildings at various locations throughout the state. |
| 6. | Federal Indirect Cost Recoveries | In fiscal year 1994-95, the department received \$3,449,542 from the Federal Emergency Management Agency and \$899,622 from the United States Department of Agriculture to assist in the cost of the 1994 forest fires. The department deposited these moneys in the General Fund to reimburse the Governor's Disaster Fund. |

Agency Response

DEPARTMENT OF MILITARY AFFAIRS



MARC RACICOT, GOVERNOR

P.O. BOX 4789

STATE OF MONTANA

OFFICE OF THE ADJUTANT GENERAL
(406) 444-6910

HELENA MONTANA 59604-4789

November 4, 1996

Mr. Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT

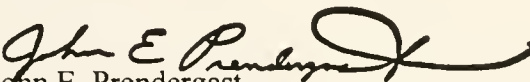
Dear Mr. Seacat,

Please find attached our responses to your final report on the audit of this Department for inclusion in the published report. I would like to thank you and your staff for their hard work and the assistance they provide this office. Audits, such as your office recently conducted, are part of a review we find helpful and necessary in operating and managing state programs.

As usual, your staff conducted themselves in a highly professional manner and were open and considerate with their inquiries and findings. We appreciate this and hope you found our staff performed in the same manner.

Thank you.

Sincerely,


John E. Prendergast
Major General, MTNG
The Adjutant General

1. RECOMMENDATION #1

A. We concur and will establish necessary internal administrative policies and procedures for disasters or emergencies to ensure compliance with state laws and policies. The department will identify our responsibilities and requirements, from the administrative standpoint, for disasters or emergencies. We will utilize past declarations as guides and involve necessary personnel from other state and local governments, if necessary. Areas that will be analyzed are: personnel responding, accounting compliance, purchasing requirements, declaration language to assist personnel responding to the situation, as well as providing an after action report that includes how the above areas were executed. Our goal for accomplishing this will be March of 1997.

B. We concur. Utilizing the above process we will identify areas that could impact other agencies and work with Department of Administration, Accounting & Management Division and the Office of Budget and Program Planning to establish appropriate accounting policies and procedures. Items such as abatements and recording of revenues will be addressed along with other findings as we review the total process. Our deadline for this process will be March of 1997.

RECOMMENDATION #2

We concur. The department will pursue the option of cash advances for federal expenditures. As an interim step, the Office of the United States Property and Fiscal Officer for Montana (USPFO) is recommending the Montana Air and Army National Guard establish a bank account in the same bank as the State of Montana. Once a billing voucher, requesting reimbursement, is received in their office, and approved, the USPFO will contact the bank and have the amount of the reimbursement transferred to the state account. When a voucher is submitted by the state for payment, due to federal internal procedures, a three week delay could be experienced before the USPFO processes the payment.

We have been informed that due to the amount of federal funds expended through the state the department will be subject to the Cash Management Improvement Act. As we understand this federal policy, time lines for reimbursement will be determined by guidelines that will mandate compliance for both entities, state and federal. Our time line for the interim step is January of 1997.

RECOMMENDATION #3

A. We concur. The department will review the situations stated by the LAD, as well as our processes for all expenditures and revenues, and document procedures to comply with state law and policies. We will change our procedure for sandbags and record the appropriate expenditures and revenues. All abatements will be reviewed for compliance before formal action is initiated and necessary policies or procedures established to insure management decisions are compatible with the set procedures. We will document reimbursements from FEMA to employees for training courses and insure proper documentation is filed.

The process of review for compliance will be on going, and new situations will be addressed accordingly. The items mentioned above will have a deadline of January, 1997.

B. We concur. Checks received by the Veterans Affairs Division are now being restrictively endorsed, and we are adhering to state law and policy.

